

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-41092

FIREFLY NEUROSCIENCE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
1100 Military Road
Kenmore, NY
(Address of principal executive offices)

54-1167364
(I.R.S. Employer Identification No.)
14217
(Zip Code)

Registrant's telephone number, including area code: (888) 237-6412

<u>Title of each class</u>	<u>Securities registered pursuant to Section 12(b) of the Act: Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.0001 per share	AIFF	The NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large
accelerated
filer

Accelerated filer
Smaller reporting company

Non-accelerated filer
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares outstanding by each class of common stock, as of August 15, 2024:

Common Stock, \$0.0001 par value – 7,341,393 shares outstanding

EXPLANATORY NOTE

This report is the Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, of Firefly Neuroscience, Inc. (“Firefly” or the Company), which was formerly known as WaveDancer, Inc. (“WaveDancer”) prior to the consummation on August 12, 2024, of the merger described below.

On August 12, 2024, pursuant to the previously announced Agreement and Plan of Merger, dated as of November 15, 2023 (as amended by that certain Amendment No. 1, dated as of January 12, 2024, and that certain Amendment No. 2, dated as of June 17, 2024, “Merger Agreement”), by and among Firefly Neuroscience, Inc., a Delaware corporation (formerly known as WaveDancer, Inc.), its wholly owned subsidiary, FFN Merger Sub, Inc., a Delaware corporation (“FFN”), and Firefly Neuroscience 2023, Inc., a Delaware corporation (formerly known as Firefly Neuroscience, Inc., “Firefly 2023”), FFN merged with and into Firefly 2023, with Firefly 2023 surviving as a wholly owned subsidiary of Firefly (the “Merger”). At the effective time of the Merger (the Closing”), each holder of outstanding shares of Firefly 2023’s common stock, par value \$0.00001 per share (the “Firefly 2023 Common Stock”) received the number of shares of common stock, par value \$0.0001 per share, of the Company (the “New Firefly Common Stock”) equal to the number of shares of Firefly 2023 Common Stock such stockholders held multiplied by the exchange ratio, or an aggregate of 7,870,251 shares of Firefly common stock at Closing using an exchange ratio (the “Exchange Ratio”) of 0.1040. Additionally, upon at the effective time of the Merger: (i) each outstanding option to purchase Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company subject to certain terms contained in the Merger Agreement and became an option to purchase shares of New Firefly Common Stock, subject to adjustment to give effect to the Exchange Ratio, (ii) each outstanding Firefly 2023 restricted share unit outstanding immediately prior to the Closing was accelerated and vested pursuant to the terms thereof, and (iii) each outstanding warrant to purchase shares of Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company, subject to certain terms contained in the Merger Agreement.

Immediately prior to the Closing of the Merger, effective as of 12:01 p.m. (New York time) on August 12, 2024, Firefly effected a reverse stock split of all of the then issued and outstanding shares of Firefly’s common stock (“Firefly Common Stock”) at a ratio of 1-for-3 (“Merger Reverse Stock Split”). As a result of the Merger Reverse Stock Split, every three (3) shares of the then issued and outstanding Firefly Common Stock were automatically combined into one (1) issued and outstanding share of Firefly Common Stock, without any change in the par value per share or the number of authorized shares of common stock.

Unless noted otherwise, all post-Merger share and per-share information presented in this Quarterly Report on Form 10-Q reflects the Merger Reverse Stock Split, however, certain of documents and information filed herewith or incorporated by reference into this Quarterly Report on Form 10-Q, do not give effect to the Merger Reverse Stock Split.

See Note 1 of the Unaudited Condensed Consolidated Financial Statements for additional information.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2024 (unaudited)	December 31, 2023 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 244,137	\$ 681,995
Accounts receivable	791,707	1,117,862
Prepaid expenses and other current assets	132,804	267,351
Total current assets	1,168,648	2,067,208
Intangible assets, net of accumulated amortization of \$562,644 and \$484,461, respectively	927,356	1,005,539
Goodwill	1,125,101	1,125,101
Right-of-use operating lease asset	28,976	245,569
Property and equipment, net of accumulated depreciation and amortization of \$449,205 and \$432,620, respectively	41,414	57,999
Other assets	18,419	18,419
Total assets	<u>\$ 3,309,914</u>	<u>\$ 4,519,835</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 759,229	\$ 403,441
Revolving line of credit	300,000	500,000
Accrued payroll and related liabilities	526,844	615,766
Commissions payable	-	30,223
Income taxes payable	3,450	3,450
Other accrued liabilities	230,024	267,604
Contract liabilities	55,531	114,540
Operating lease liabilities - current	39,610	163,282
Total current liabilities	1,914,688	2,098,306
Operating lease liabilities - non-current	-	136,652
Deferred tax liabilities, net	16,187	16,187
Total liabilities	<u>1,930,875</u>	<u>2,251,145</u>
Stockholders' equity		
Common stock, \$0.0001 par value 100,000,000 shares authorized; 726,829 shares issued, 671,060 shares outstanding as of June 30, 2024 and December 31, 2023	73	73
Additional paid-in capital	36,633,060	36,459,064
Accumulated deficit	(34,288,883)	(33,225,236)
Treasury stock, 55,768 shares at cost, as of June 30, 2024 and December 31, 2023	(965,211)	(965,211)
Total stockholders' equity	<u>1,379,039</u>	<u>2,268,690</u>
Total liabilities and stockholders' equity	<u>\$ 3,309,914</u>	<u>\$ 4,519,835</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,	
	2024	2023
Revenues		
Professional fees	\$ 1,874,097	\$ 1,967,957
Software sales	29,505	56,665
Total revenues, net	1,903,602	2,024,622
Cost of revenues		
Cost of professional fees	1,191,578	1,263,822
Cost of software sales	29,329	55,787
Total cost of revenues excluding depreciation and amortization	1,220,907	1,319,609
Gross profit	682,695	705,013
Selling, general and administrative expenses	1,064,765	1,654,365
Gain on Settlement of litigation	-	(1,442,468)
Operating (loss) income from continuing operations	(382,070)	493,116
Other income, net	2,740	131
Interest expense	(10,367)	(36,809)
(Loss) income from continuing operations before income taxes and equity in net loss of affiliate	(389,697)	456,438
Provision for income taxes	-	-
Net (loss) income from continuing operations before equity in net loss of affiliate	(389,697)	456,438
Equity in net loss of affiliate	-	(221,653)
Net (loss) income	\$ (389,697)	\$ 234,785
Basic (loss) earnings per share	\$ (0.58)	\$ 0.36
Diluted (loss) earnings per share	\$ (0.58)	\$ 0.36
Weighted average common shares outstanding		
Basic	671,060	641,995
Diluted	671,060	648,498

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Revenues		
Professional fees	\$ 3,759,966	\$ 4,071,415
Software sales	59,009	113,330
Total revenues, net	3,818,975	4,184,745
Cost of revenues		
Cost of professional fees	2,378,363	2,710,239
Cost of software sales	58,659	112,695
Total cost of revenues excluding depreciation and amortization	2,437,022	2,822,934
Gross profit	1,381,953	1,361,811
Selling, general and administrative expenses	2,437,994	3,265,893
Gain on litigation settlement	-	(1,442,468)
Operating loss from continuing operations	(1,056,041)	(461,614)
Other income, net	13,504	222
Interest expense	(21,110)	(72,257)
Loss from continuing operations before income taxes and equity in net loss of affiliate	(1,063,647)	(533,649)
Provision for income taxes	-	-
Net loss from continuing operations before equity in net loss of affiliate	(1,063,647)	(533,649)
Equity in net loss of affiliate	-	(245,525)
Net loss from continuing operations	(1,063,647)	(779,174)
Loss from discontinued operations	-	(335,993)
Net loss	\$ (1,063,647)	\$ (1,115,167)
Basic and diluted loss per share from continuing operations	\$ (1.65)	\$ (1.22)
Basic and diluted loss per share from discontinued operations	\$ -	\$ (0.52)
Basic and diluted net loss per share	\$ (1.65)	\$ (1.74)
Weighted average common shares outstanding		
Basic and diluted	643,025	641,208

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities		
Net loss	(1,063,647)	\$ (1,115,167)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	-	335,993
Depreciation and amortization	94,768	107,827
Stock-based compensation	173,996	376,331
Amortization of right-of-use assets	50,872	64,038
Accretion of deferred acquisition consideration	-	27,370
Gain on lease termination	(6,419)	-
Gain on litigation settlement	-	(1,442,468)
Equity in loss of affiliate	-	245,525
Changes in operating assets and liabilities:		
Accounts receivable	326,155	(105,385)
Prepaid expenses and other current assets	134,547	(45,561)
Other assets	-	58,682
Accounts payable	355,788	265,922
Contract liabilities	(59,009)	(110,753)
Accrued payroll and related liabilities and other accrued liabilities	(126,502)	83,243
Operating lease liability	(88,184)	(101,357)
Commissions payable	(30,223)	(104,670)
Cash used in operating activities of continuing operations	(237,858)	(1,460,430)
Cash used in operating activities of discontinued operations	-	(693,106)
Net cash used in operating activities	(237,858)	(2,153,536)
Cash flows from investing activities		
Proceeds from disposal of business	-	935,974
Net cash provided by investing activities	-	935,974
Cash flows from financing activities		
(Repayments) borrowings under revolving line of credit	(200,000)	575,000
Premium financing borrowings	-	305,759
Premium financing repayments	-	(119,644)
Proceeds from issuance of stock	-	56,266
Proceeds from exercise of stock options	-	7,400
Net cash (used in) provided by financing activities	(200,000)	824,781
Net decrease in cash and cash equivalents	(437,858)	(392,781)
Cash and cash equivalents, beginning of period	681,995	731,081
Cash and cash equivalents, end of period	\$ 244,137	\$ 338,300
Supplemental cash flow Information		
Interest paid	\$ 23,298	\$ 18,356
Non-cash investing and financing activities:		
Non-cash proceeds on disposal of business	\$ -	\$ 1,263,000

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Shares of Common Stock Issued	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2023	726,829	\$ 73	\$ 36,459,064	\$ (33,225,236)	\$ (965,211)	\$ 2,268,690
Net loss	-	-	-	(673,950)	-	(673,950)
Stock option compensation	-	-	113,780	-	-	113,780
Balances at March 31, 2024	726,829	73	36,572,844	(33,899,186)	(965,211)	1,708,520
Net loss	-	-	-	(389,697)	-	(389,697)
Stock option compensation	-	-	60,216	-	-	60,216
Balances at June 30, 2024	726,829	\$ 73	\$ 36,633,060	\$ (34,288,883)	\$ (965,211)	\$ 1,379,039

	Shares of Common Stock Issued	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2022	694,620	\$ 69	\$ 35,885,846	\$ (31,190,801)	\$ (965,211)	\$ 3,729,903
Net loss	-	-	-	(1,349,952)	-	(1,349,952)
Stock option compensation	-	-	353,658	-	-	353,658
Forfeiture of stock options on disposal of business (Note 2)	-	-	(407,322)	-	-	(407,322)
Stock issued	2,477	1	56,265	-	-	56,266
Amortization of stock issue costs	-	-	(18,635)	-	-	(18,635)
Issuance of stock from exercise of options	667	-	7,400	-	-	7,400
Balances at March 31, 2023	697,764	70	35,877,212	(32,540,753)	(965,211)	2,371,318
Net loss	-	-	-	234,785	-	234,785
Stock option compensation	-	-	88,159	-	-	88,159
Amortization of stock issue costs	-	-	(76,673)	-	-	(76,673)
Balances at June 30, 2023	697,764	\$ 70	\$ 35,888,698	\$ (32,305,968)	\$ (965,211)	\$ 2,617,589

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

FIREFLY NEUROSCIENCE, INC.
(formerly WaveDancer, Inc.)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies**Organization and Business**

Founded in 1979 as Information Analysis Incorporated (“IAI”), IAI changed its name to WaveDancer, Inc. (“WaveDancer” or the “Company”) and converted from a Virginia corporation to a Delaware corporation in December 2021. The Company was historically in the business of developing and maintaining information technology (“IT”) systems, modernizing client information systems, and performing other IT-related professional services to government and commercial organizations.

On March 17, 2023, the Company sold effectively 75.1% of the equity of its Gray Matters, Inc. subsidiary (“GMI”) to Gray Matters Data Corporation (“GMDC”). Subsequent to the sale, the Company discontinued consolidating GMI and the Company has reflected GMI as a discontinued operation in its consolidated statements of operations through 2023. Unless otherwise noted, all amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to the Company’s continuing operations. See Note 2 for further information about the sale transaction, the deconsolidation of GMI, and treatment of GMI as a discontinued operation. On August 9, 2023, the Company sold its remaining equity interest in GMDC.

Prior to March 17, 2023, we had two operating segments: Tellenger and Blockchain SCM. Following the sale of GMI, which comprised all of the material operations of the Blockchain SCM segment, it was presented as a discontinued operation (see Note 2), and the Blockchain SCM segment ceased to exist. After March 17, 2023, the Company managed its business as one reportable operating segment.

In connection with and prior to the consummation of the Merger (as defined and further described below), pursuant to the previously announced Stock Purchase Agreement, dated as of November 15, 2023, by and among the Company, Wavetop Solutions, Inc. (“Wavetop”) and Tellenger, Inc. (“Tellenger”), Wavetop purchased from the Company all of the issued and outstanding shares of common stock, par value \$1.00 per share, of Tellenger prior to the merger, for an aggregate purchase price of \$1.5 million, plus the assumption of the employment agreements that WaveDancer was obligated under with G. James Benoit, Jr., Gwen Pal and Stan Reese, which included provisions to pay severance under certain circumstances. The purchase price was paid in full in cash less the outstanding balance of WaveDancer’s \$500,000 credit facility with Summit Commercial Bank, N.A. (“SCB”). The balance of the credit facility at SCB was paid in full concurrent with the close of the Merger.

Agreement and Plan of Merger

On August 12, 2024, pursuant to the previously announced Agreement and Plan of Merger, dated as of November 15, 2023 (as amended by that certain Amendment No. 1, dated as of January 12, 2024, and that certain Amendment No. 2, dated as of June 17, 2024, “Merger Agreement”), by and among the Company, its wholly owned subsidiary, FFN Merger Sub, Inc., a Delaware corporation (“FFN”), and Firefly Neuroscience 2023, Inc., a Delaware corporation (formerly known as Firefly Neuroscience, Inc., “Firefly 2023”), FFN merged with and into Firefly 2023, with Firefly 2023 surviving as a wholly owned subsidiary of Firefly (the “Merger”). At the effective time of the Merger (the Closing”), each holder of outstanding shares of Firefly 2023’s common stock, par value \$0.00001 per share (the “Firefly 2023 Common Stock”) received the number of shares of common stock, par value \$0.0001 per share, of the Company (the “New Firefly Common Stock”) equal to the number of shares of Firefly 2023 Common Stock such stockholders held multiplied by the exchange ratio, or an aggregate of 7,870,251 shares of Firefly common stock at Closing using an exchange ratio (the “Exchange Ratio”) of 0.1040. Additionally, upon at the effective time of the Merger: (i) each outstanding option to purchase Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company subject to certain terms contained in the Merger Agreement and became an option to purchase shares of New Firefly Common Stock, subject to adjustment to give effect to the Exchange Ratio, (ii) each outstanding Firefly 2023 restricted share unit outstanding immediately prior to the Closing was accelerated and vested pursuant to the terms thereof, and (iii) each outstanding warrant to purchase shares of Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company, subject to certain terms contained in the Merger Agreement.

Immediately prior to the Closing of the Merger, on August 12, 2024, (i) (A) pursuant to the Amended and Restated Certificate of Incorporation of WaveDancer, Inc., WaveDancer changed its name to Firefly Neuroscience, Inc., and (B) pursuant to an amendment to its Certificate of Incorporation, Firefly 2023 changed its name to Firefly Neuroscience 2023, Inc. and (ii) Firefly effected a reverse stock split of all of the then issued and outstanding shares of Firefly’s common stock (“Firefly Common Stock”) at a ratio of 1-for-3 (“Merger Reverse Stock Split”). As a result of the Merger Reverse Stock Split, every three (3) shares of the then issued and outstanding Firefly Common Stock were automatically combined into one (1) issued and outstanding share of Firefly Common Stock, without any change in the par value per share or the number of authorized shares of common stock.

Following the Closing, there are 7,870,251 shares of New Firefly Common Stock outstanding, with former Firefly 2023 stockholders owning approximately 92% and former Firefly stockholders owning 8% of the Company’s outstanding securities.

Following the consummation of the Merger (as defined below), the business of Firefly 2023 became the business of the Company, as described below.

Firefly Business

Firefly is an Artificial Intelligence (“AI”) technology company developing innovative neuroscientific solutions that improve outcomes for patients with mental illnesses and neurological disorders. Its FDA-510(k) cleared Brain Network Analytics software platform (the “BNA Platform”) and is focused on advancing diagnostic and treatment approaches for people suffering from mental illnesses and cognitive disorders, including depression, dementia, anxiety disorders, concussions, and attention-deficit/hyperactivity disorder.

Liquidity and Going Concern

During the six months ended June 30, 2024, the Company generated an operating loss from continuing operations of \$1,056,041. As of June 30, 2024, the Company had a net working capital deficit of \$746,040 including cash and cash equivalents of \$244,137. Under existing operating conditions, we estimate that over the twelve months from the date of these financial statements our operating activities may use as much as \$1.0 million to \$1.5 million of cash, including the satisfaction of all existing liabilities. The Company's line of credit balance as of June 30, 2024, was \$300,000, had no additional borrowing capacity, and expired on July 16, 2024. These factors raise substantial doubt about our ability to continue as a going concern for at least the next twelve months from the date of filing.

The business of Firefly 2023 had negative cash flow from operating activities for the six months ended June 30, 2024 and 2023, as disclosed in the Company's Current Report on Form 8-K filed August 14, 2024. Further, Firefly 2023 has had recurring losses with minimal revenue from operations. While the Company is attempting to raise funds for commercialization, Firefly 2023's monthly cash requirements during the six months ended June 30, 2024 had been met through issuance of shares to new and existing shareholders. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Therefore, the Company may be unable to realize its assets and discharge its liabilities in normal course of business. To strengthen the Company's liquidity in the foreseeable future, the Company has taken the following measures:

- (i) Negotiating further funding with existing and new investors to raise additional capital;
- (ii) Taking various cost control measures to reduce the operational cash burn; and
- (iii) Commercializing product to generate recurring sales.

Management of the Company has a reasonable expectation that the Company can continue raising additional equity capital to continue in operational existence for the foreseeable future.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities in the ordinary course of business. The propriety of using the going-concern basis is dependent upon, among other things, the achievement of future profitable operations, the ability to generate sufficient cash from operations and potential other funding sources, in addition to cash on-hand, to meet its obligations as they become due. The Company's unaudited condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Reverse Stock Splits

On August 12, 2024, in connection with the Merger, the Company effected the Merger Reverse Stock Split. The Merger Reverse Stock Split affected all issued common stock and options and warrants to acquire common stock. No fractional shares were issued as a result of the reverse split and any fractional share otherwise issuable were rounded up to the nearest whole number. All shares and per share amounts in the condensed consolidated financial statements and accompanying notes have been retroactively adjusted to give effect to the Merger Reverse Stock Split. Following the Merger Reverse Stock Split, the Company's issued and outstanding shares of Common Stock decreased from 2,180,485 issued and 2,013,180 outstanding pre-split shares, respectively, to approximately 729,829 issued and 671,060 outstanding post-split shares, before finalizing the rounding of fractional shares. As a result of the Merger Reverse Stock Split, the exercise prices of the outstanding options and warrants were increased by a factor of three.

Certain amounts presented in the 2023 unaudited condensed consolidated financial statements, including common stock, additional paid-in capital, and shares and per share data have been retroactively adjusted for the Merger Reverse Stock Split and the Reverse Stock Split to conform to the current period financial statement presentation.

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements ("financial statements") have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. In the opinion of management, the financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2023, included in the Annual Report on Form 10-K filed by the Company with the SEC on March 20, 2024 (the "Annual Report"), as amended. The accompanying December 31, 2023, condensed consolidated balance sheet was derived from the audited financial statements included in the Annual Report but does not include all disclosures required by accounting principles generally accepted in the United States of America. The results of operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

The unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2024, include the accounts of WaveDancer and its condensed consolidated subsidiaries (collectively, the "Company", "we" or "our"). All significant intercompany transactions and balances have been eliminated in consolidation.

There have been no changes in the Company's significant accounting policies as of June 30, 2024, as compared to the significant accounting policies disclosed in Note 1, "Summary of Significant Accounting Policies" in the Company's Annual Report.

Equity Method Investments

The Company has accounted for investments in which it owns between 20% to 50% of the common stock or has the ability to exercise significant influence, but not control, over the investee using the equity method of accounting in accordance with ASC 323 - *Equity Method Investments and Joint Ventures* ("ASC 323"). Under the equity method, an investor initially records an investment in the stock of an investee at cost and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition. The Company reflects its share of gains and losses from the investment in equity in net loss of affiliate in the unaudited condensed consolidated statements of operations using the most recently available earnings data at the end of the period.

In connection with the sale of GMI to GMDC on March 17, 2023 (the "Sale Date"), the Company received common stock in GMDC representing approximately 24.9% of the equity of GMDC. See Note 2 for further information about the sale transaction, the deconsolidation of GMI, and the treatment of GMI as a discontinued operation. The Company accounted for its investment in GMDC in accordance with the equity method from March 17, 2023, through August 9, 2023. On August 9, 2023, the Company sold its remaining equity interest in GMDC in exchange for \$400,000 in cash and recognized a gain on sale of \$64,525. Since August 9, 2023, the Company has no equity investment in GMDC nor any other equity exposure to the GMI business.

Use of Estimates

Preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates due to uncertainties. On an ongoing basis, we evaluate our estimates, including those related to the allowance for credit losses; fair values of financial instruments, intangible assets, and goodwill, including the underlying estimates of cash flows of our products and reporting unit; useful lives of intangible assets and property and equipment; the valuation of stock-based compensation, and the valuation of deferred tax assets and liabilities, among others. We base our estimates on assumptions, both historical and forward looking, that are believed to be reasonable, and the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Concentration of Credit Risk

During the three months ended June 30, 2024, the Company's prime contracts with U.S. government agencies represented 7.1% of revenue and subcontracts under federal procurements represented 92.9% of revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 30.0%, 23.5%, and 17.4% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 61.2% of the Company's revenue in aggregate.

During the three months ended June 30, 2023, the Company's prime contracts with U.S. government agencies represented 10.2% of revenue and subcontracts under federal procurements represented 89.7% of revenue, and 0.1% of revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 30.5%, 19.3%, and 17.5% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 55.1% of the Company's revenue in aggregate.

During the six months ended June 30, 2024, the Company's prime contracts with U.S. government agencies represented 8.0% of revenue and subcontracts under federal procurements represented 92.0% of revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 29.5%, 23.3%, and 17.2% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 60.0% of the Company's revenue in aggregate.

During the six months ended June 30, 2023, the Company's prime contracts with U.S. government agencies represented 9.1% of revenue and subcontracts under federal procurements represented 89.3% of revenue, and 1.6% of revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 30.3%, 21.1%, and 16.6% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 54.5% of the Company's revenue in aggregate.

As of June 30, 2024, the Company's accounts receivable included receivables from three subcontracts under federal procurements that represented 22.5%, 24.8%, and 14.9% of the Company's outstanding accounts receivable, respectively. Receivables from one prime contractor under which the Company has multiple subcontracts represented 52.9% of the Company's outstanding accounts receivable in aggregate.

As of December 31, 2023, the Company's accounts receivable included receivables from two subcontracts under federal procurements that represented 30.2% and 29.3% of the Company's outstanding accounts receivable, respectively. Receivables from one prime contractor under which the Company has multiple subcontracts represented 70.1% of the Company's outstanding accounts receivable in aggregate.

Note 2. Sale and Deconsolidation of GMI and Discontinued Operations

On March 17, 2023, the Company entered into and closed a Stock Purchase Agreement with GMDC, a company newly formed by StealthPoint LLC, a San Francisco based venture fund, under which the Company sold all of the shares of its subsidiary, Gray Matters, Inc. In exchange for this sale, the Company received common shares of GMDC representing on a primary share basis, assuming the conversion of the Series A preferred stock referenced below, 24.9% interest in the purchaser, cash consideration of \$935,974 and contingent annual payments equal to five percent (5%) of the purchaser's GAAP based revenue through December 31, 2029 attributable to the purchaser's blockchain-enabled digital supply chain management platform and associated technologies. Payments were to be calculated for each calendar year and were due by March 31 of the following year. GMDC also paid the Company \$133,148 for certain of GMI's operating expenses for the period beginning March 1, 2023 through March 17, 2023.

The equity interest StealthPoint and other GMDC investors received was in the form of Series A non-participating convertible preferred stock having a one-times (1x) liquidation preference and no cumulative dividends. In addition, the Company and GMDC entered into a transition services agreement whereby the Company continued to provide certain administrative services for GMI. The value of these services were \$65,000 which was paid by GMDC at closing and was not subject to adjustment.

The \$65,000 prepayment was included in other accrued liabilities on the unaudited condensed consolidated balance sheet as of March 31, 2023, and was amortized as a reduction to selling, general and administrative expenses ratably over the three-month period ending June 30, 2023 after which time no further transition services were provided. The total cash received at closing was \$1,000,974. The Company also had the right to appoint a representative to GMDC's board of directors and a right to co-invest in a later preferred stock financing round. The Company recognized a gain on the sale of GMI of \$100,615 in the first quarter of 2023, which was included in net loss on discontinued operations in the unaudited condensed consolidated statement of operations, and immediately deconsolidated GMI upon its sale. GMDC was not a related party of the Company at the time of its purchase of GMI. Subsequent to our deconsolidation of GMI, GMI and GMDC were related parties of the Company until the August 9, 2023, sale of our equity interest in GMDC. The Company's current and future rights with regard to GMDC terminated with the sale of the equity interest.

The components of the consideration received and the methods for determining their fair values as of March 17, 2023, were as follows:

Consideration	Amount	Description and Valuation Methodology
Cash at closing	\$ 935,974	Cash received at closing less estimated value of transition services to be provided.
Cash after closing	133,148	Actual cash operating expenses of GMI from March 1 through March 17, 2023 (prior to the transfer of GMI to GMDC).
GMDC common stock	581,000	Based on Series A preferred stock issuance to other GMDC investors for \$3,000,000 in cash and application of an option pricing model backsolve method and a minority interest discount to estimate the fair value of the common shares of GMDC.
Contingent payments	682,000	Estimated by applying a discount rate of 40.8% to the projected cash receipts expected over the 7-year horizon. (See Note 5).
Total consideration	<u>\$ 2,332,122</u>	

The GMDC common stock was accounted for as an equity method investment from March 17, 2023 and through its sale on August 9, 2023. During this period, a net loss of \$245,525 in the equity investment was recorded. On August 9, 2023, the Company sold its remaining equity interest in GMDC in exchange for \$400,000 in cash and recognized a gain on sale of \$64,525. The contingent consideration receivable of \$682,000 was settled in cash for \$1,000,000 and a gain of \$318,000 was recognized (see Note 5).

The following table sets forth details of net earnings from discontinued operations for the six months ended June 30, 2024 and 2023, which reflects the results of the Blockchain SCM operating segment through the date our controlling financial interest in it was sold – March 17, 2023 (See Note 1).

	Six Months Ended June 30,	
	2024	2023
Revenue	\$ -	\$ -
Cost of revenue	-	74,223
Excess of contract costs over revenue	-	(74,223)
Operating expenses -		
Salaries and benefits	-	484,249
Intangibles amortization	-	85,338
Stock based compensation, before forfeitures	-	65,487
Forfeiture of stock options	-	(407,322)
Other operating expenses	-	134,633
Gain on disposal of business	-	(100,615)
Loss before income tax benefit	-	(335,993)
Income tax benefit	-	-
Net loss on discontinued operations	<u>\$ -</u>	<u>\$ (335,993)</u>

During the six months ended June 30, 2023, there was a total of 715,000 unvested stock options forfeited by GMI employees, including 527,500 forfeited by employees who resigned from WaveDancer, on the Sale Date, and were offered employment by GMDC. Stock-based compensation expense of \$407,322, previously recognized for these forfeited unvested options, was taken back into income in March 2023.

Note 3. Revenue from Contracts with Customers

Nature of Products and Services

We generate revenue from the sales of information technology professional services, sales of third-party software licenses and implementation and training services, and sales of third-party support and maintenance contracts based on those software products. We sell through our direct relationships with end customers and under subcontractor arrangements.

Professional services are offered through several arrangements – through time and materials arrangements, fixed-price-per-unit arrangements, fixed-price arrangements, or combinations of these arrangements within individual contracts. Revenue under time and materials arrangements is recognized over time in the period the hours are worked or the expenses are incurred, as control of the benefits of the work is deemed to have passed to the customer as the work is performed. Revenue under fixed-price-per-unit arrangements is recognized at a point in time when delivery of units has occurred, and units are accepted by the customer or are reasonably expected to be accepted. Generally, revenue under fixed-price arrangements and mixed arrangements is recognized either over time or at a point in time based on the allocation of transaction pricing to each identified performance obligation as control of each is transferred to the customer. For fixed-price arrangements under which documentary evidence of acceptance or receipt of deliverables is not present or withheld by the customer, the Company recognizes revenue when it has the right to invoice the customer. For fixed-price arrangements for which the Company is paid a fixed fee to make itself available to support a customer, with no predetermined deliverables to which transaction prices can be estimated or allocated, revenue is recognized ratably over time.

Third-party software licenses are classified as enterprise server-based software licenses or desktop software licenses, and desktop licenses are further classified by the type of customer and whether the licenses are bulk licenses or individual licenses. The Company's obligations as the seller for each class differ based on its reseller agreements and whether its customers are government or non-government customers. Revenue from enterprise server-based sales to either government or non-government customers is usually recognized in full at a point in time based on when the customer gains use of the full benefit of the licenses, after the licenses are implemented. If the transaction prices of the performance obligations related to implementation and customer support for the individual contract are material, these obligations are recognized separately over time, as performed. Revenue for desktop software licenses for government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. Revenue for bulk desktop software licenses for non-government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. For desktop software licenses sold on an individual license basis to non-government customers, where the Company has no obligation to the customer after the third-party makes delivery of the licenses, the Company has determined it is acting as an agent, and the Company recognizes revenue upon delivery of the licenses only for the net of the selling price and its contract costs.

Third-party support and maintenance contracts for enterprise server-based software include a performance obligation under the Company's reseller agreements for it to be the first line of support (direct support) and second line of support (intermediary between customer and manufacturer) to the customer. Because of the support performance obligations, and because the amount of support is not estimable, the Company recognizes revenue ratably over time as it makes itself available to provide the support.

Disaggregation of Revenue from Contracts with Customers

Contract Type	Three Months Ended June 30,			
	2024		2023	
	Amount	Percentage	Amount	Percentage
Services time & materials	\$ 1,690,650	88.8%	\$ 1,719,674	84.9%
Services fixed price over time	107,475	5.6%	102,402	5.1%
Services combination	31,920	1.7%	33,090	1.6%
Services fixed price per unit	44,052	2.3%	112,791	5.6%
Third-party software	29,505	1.6%	56,665	2.8%
Total revenue	<u>\$ 1,903,602</u>	<u>100.0%</u>	<u>\$ 2,024,622</u>	<u>100.0%</u>

Contract Type	Six Months Ended June 30,			
	2024		2023	
	Amount	Percentage	Amount	Percentage
Services time & materials	\$ 3,344,653	87.6%	\$ 3,600,335	86.0%
Services fixed price over time	214,950	5.6%	204,804	4.9%
Services combination	63,840	1.7%	66,180	1.6%
Services fixed price per unit	136,523	3.6%	200,096	4.8%
Third-party software	59,009	1.5%	113,330	2.7%
Total revenue	<u>\$ 3,818,975</u>	<u>100.0%</u>	<u>\$ 4,184,745</u>	<u>100.0%</u>

Contract Balances
Accounts Receivable

Trade accounts receivable are recorded at the billable amount where the Company has the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for credit losses when identified. There were no such allowances recognized as of June 30, 2024 and December 31, 2023.

Accounts receivable as of June 30, 2024 and December 31, 2023, consist of the following:

	June 30, 2024	December 31, 2023
Billed federal government	\$ 790,446	\$ 1,110,001
Billed commercial and local government	-	6,600
Unbilled receivables	1,261	1,261
Accounts receivable	<u>\$ 791,707</u>	<u>\$ 1,117,862</u>

Billed receivables from the federal government include amounts due from both prime contracts and subcontracts where the federal government is the end customer.

Contract Liabilities

Contract liabilities consist of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Changes in contract liabilities balances are as follows:

Balance at December 31, 2023	\$	114,540
Contract liabilities added		26,026
Revenue recognized		(55,531)
Balance at March 31, 2024		85,035
Contract liabilities added		1,732
Revenue recognized		(31,237)
Balance at June 30, 2024	\$	55,531
Balance at December 31, 2022	\$	182,756
Revenue recognized		(55,665)
Balance at March 31, 2023		127,091
Revenue recognized		(55,088)
Balance at March 31, 2023	\$	72,003

Revenues recognized during the three months ended June 30, 2024 and 2023, from the balances as of December 31, 2023 and 2022, were \$31,237 and \$55,665, respectively. Revenues recognized during the six months ended June 30, 2024 and 2023, from the balances as of December 31, 2023 and 2022, were \$85,035 and \$110,753, respectively.

Deferred Costs of Revenue

Deferred costs of revenue consist of the costs of third-party support and maintenance contracts for enterprise server-based software. These costs are reported under the prepaid expenses and other current assets caption on the Company's condensed consolidated balance sheets. The Company recognizes these direct costs ratably over time as it makes itself available to provide its performance obligation for software support, commensurate with its recognition of revenue. Changes in deferred costs of revenue balances for the three and six months ended June 30, 2024 are as follows:

Balance at December 31, 2023	\$	87,988
Deferred costs expensed		(29,330)
Balance at March 31, 2024		58,658
Deferred costs expensed		(29,330)
Balance at June 30, 2024		29,329

Note 4. Leases

The Company has two significant operating leases, one for its headquarters offices in Fairfax, Virginia (the "Fairfax Lease") and one for additional office space in Annapolis, Maryland. The leases both commenced in 2021 and had original lease terms ranging from 37 to 67 months, and rental rates escalate by approximately 2.5% annually under both leases. The Company determines if an arrangement is a lease at inception. In February 2024, the Company gave notice of exercise of a termination option of the Fairfax Lease effective November 30, 2024 for a fee equivalent to two months rent, in accordance with lease terms. Under lease modification standards, the Company reassessed the Fairfax Lease, resulting in the derecognition of the related lease asset of \$165,721 and lease liabilities of \$172,140 on the Company's condensed consolidated balance sheets and a gain on lease termination of \$6,419 as presented on the Company's condensed consolidated statements of operations.

As of June 30, 2024 and December 31, 2023, the Company does not have any sales-type or direct financing leases.

Each of the Company's operating lease assets represent its right to use an underlying asset for the lease term and the related lease liability represents its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date, subject to reassessment upon the material modification of a lease, based on the present value of lease payments over the lease term. Since the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement dates or lease modification dates in determining the present value of lease payments. The operating lease assets also include any lease payments made and exclude lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease agreements include rental payments escalating annually for inflation at a fixed rate. These payments are included in the initial measurement of the operating lease liabilities and operating lease assets. The Company does not have any rental payments which are based on a change in an index or a rate that can be considered variable lease payments, which would be expensed as incurred.

The Company's lease agreements do not contain any material residual value guarantees or material restrictions or covenants.

The Company does not sublease any real estate to third parties.

As of June 30, 2024, our remaining operating lease had a weighted average remaining lease term of 4 months and a weighted average discount rate of 4.5%. Future lease payments under operating leases as of June 30, 2024, were as follows:

Remainder of 2024	\$	40,057
Total lease payments		40,057
Less: discount		(447)
Present value of lease liabilities	\$	<u>39,610</u>

The total expense incurred related to its operating leases was \$37,106 and \$38,053 for the three months ended June 30, 2024 and 2023, respectively, and \$75,825 and \$76,106 for the six months ended June 30, 2024 and 2023 and is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Note 5. Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the fair value hierarchy for the Company’s financial instruments measured at fair value on a recurring basis as of June 30, 2024 and December 31, 2023:

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 196,313	\$ -	\$ -	\$ 196,313
December 31, 2023				
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 631,258	\$ -	\$ -	\$ 631,258

Money market funds are highly liquid investments and are included in cash and cash equivalents on the consolidated balance sheets. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

As discussed in Note 2 above, in connection with its sale of GMI, the Company received contingent consideration that required GMDC to make annual payments equal to five percent (5%) of the purchaser’s GAAP based revenue through December 31, 2029, up to a cumulative maximum of \$4,000,000, attributable to the purchaser’s blockchain-enabled digital supply chain management platform and associated technologies. The fair value of the contingent consideration was estimated based on GMDC’s forecast of revenue, the estimated after-tax payments to the Company, and the present value of the after-tax payments based on discount rate that reflects the risk of achieving the timing and amounts of forecasted payments. The significant inputs utilized in estimating the fair value of contingent consideration include the forecast of revenues, the income tax rate of 27.0 percent, and the discount rate of 40.75 percent. On August 9, 2023, the Company and GMDC agreed to terminate all rights and obligations with respect to the calculation and payment of future contingent payments from GMDC to the Company in exchange for the payment of \$1,000,000 cash by GMDC to the Company, resulting in a gain of \$318,000.

There were no assets requiring Level 3 fair value measurements as of June 30, 2024 and December 31, 2023.

There were no unrealized gains or losses recognized in income for the three- or six-month periods ended June 30, 2024 and 2023.

Note 6. Intangible Assets

Information regarding our intangible assets is as follows:

	Weighted Average Useful Life (Years)	Balance December 31, 2023	Additions	Balance June 30, 2024
Intangible assets with estimated useful lives				
Customer relationships	8.0	\$ 1,090,000	\$ -	\$ 1,090,000
Non-compete agreements	3.0	120,000	-	120,000
Accumulated amortization		(484,461)	(78,183)	(562,644)
Sub-total		725,539	(78,183)	647,356
Intangible assets with indefinite lives				
Trade names	Indefinite	280,000	-	280,000
Net identifiable intangible assets		\$ 1,005,539	\$ (78,183)	\$ 927,356

As of June 30, 2024, expected amortization expense relating to purchased intangible assets for each of the next five years and thereafter is as follows:

Remainder of 2024	\$ 68,124
2025	136,248
2026	136,248
2027	136,248
2028	136,248
Thereafter	34,240
Total	\$ 647,356

Note 7. Stock-Based Compensation

We have three stock-based compensation plans. The 2006 Stock Incentive Plan was adopted in 2006 (“2006 Plan”) and had options granted under it through April 12, 2016. The 2016 Stock Incentive Plan was adopted in 2016 (“2016 Plan”) and had options granted under it through November 15, 2021. On October 11, 2021, the Board of Directors approved the 2021 Stock Incentive Plan (“2021 Plan”) and on December 2, 2021, our shareholders approved the 2021 Plan.

The Company recognizes compensation costs on a straight-line basis over the service period of the awards.

There were no option awards granted in the six months ended June 30, 2024 and 2023. There were no options exercised during the three months ended June 30, 2024 and 2023, respectively, and zero and 667 options exercised during the six months ended June 30, 2024 and 2023. As of June 30, 2024, there was \$162,308 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the stock incentive plans; that cost is expected to be recognized over a weighted-average period of 11 months.

Total compensation expense related to these plans was \$60,216 and \$88,159 for the three months ended June 30, 2024 and 2023, respectively, and \$173,996 and \$376,331 for the six months ended June 30, 2024 and 2023, respectively, and is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Note 8. Revolving Line of Credit

On September 30, 2022, the Company entered a revolving line of credit with Summit Community Bank that provided for on-demand or short-term borrowings of up to \$1,000,000 at a variable interest rate equal to the prime rate as published in *The Wall Street Journal*, with a minimum rate of 3.99% and a maximum rate of 20.00%, and subject to a borrowing base calculated using outstanding accounts receivable. Borrowings under the line of credit are secured by the assets of the Company. This line of credit expired on August 16, 2023.

On September 11, 2023, the Company and SCB entered a new line of credit agreement with the same terms as the preceding agreement, except that the maximum availability under the new line was reduced from \$1,000,000 to \$500,000. There were no borrowings and \$200,000 of repayments during the six months ended June 30, 2024. As of June 30, 2024, there was \$300,000 outstanding and no borrowing availability under this line of credit. The line of credit expired on July 16, 2024. On August 12, 2024, upon the close of the Merger, the lender was repaid in full.

As of June 30, 2024, the fair value of debt outstanding on our revolving line of credit approximates its carrying value due to the short term nature of the facility.

Note 9. Sales of Shares Under Common Stock Purchase Agreement

On July 8, 2022, we entered into a Common Stock Purchase Agreement (the "Purchase Agreement" or "ELOC") and a Registration Rights Agreement (the "Registration Rights Agreement") with B. Riley Principal Capital II, LLC ("B. Riley"). Pursuant to the Purchase Agreement, subject to certain limitations and conditions, the Company has the right, but not the obligation, to sell to B. Riley up to \$15,000,000 of shares of the Company's common stock, par value \$0.0001 per share ("Common Stock"), from time to time. Sales of Common Stock to B. Riley under the Purchase Agreement, and the timing of any such sales, are solely at the Company's option, and the Company is under no obligation to sell any securities to B. Riley under the Purchase Agreement. Pursuant to the Registration Rights Agreement, the Company agreed to file a registration statement with the Securities Exchange Commission (the "SEC") to register under the Securities Act of 1933, as amended (the "Securities Act") the resale by B. Riley of up to 150,000 shares of Common Stock that the Company may issue or elect, in the Company's sole discretion, to issue and sell to B. Riley, from time to time under the Purchase Agreement. Use of the ELOC is subject to restrictions based on the price and trading volume of our stock, which limits its availability to the Company as a significant source of capital.

During the three and six months ended June 30, 2024, the Company had no sales of shares of common stock. During the three months ended June 30, 2023, the Company had no sales of shares of common stock, and during the six months ended June 30, 2023, the Company sold 2,479 shares of common stock under the ELOC at an average price of \$21.56 per share, net of fees of approximately \$1.20 per share. The net proceeds from this sale were \$53,453.

Note 10. Income Taxes

For the three and six months ended June 30, 2024, the Company's effective tax rate was 0%. The difference between the statutory tax rate and the effective tax rate for the three and six months ended June 30, 2024, is primarily driven by the presence of a full valuation allowance against all deferred tax assets.

Note 11. Loss Per Share

Basic loss per share excludes dilution and is computed by dividing the loss available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except for periods when the Company reports a net loss because the inclusion of such items would be antidilutive. The antidilutive effects of 913 shares from stock options and zero shares from warrants were excluded from diluted shares for the three months ended June 30, 2024, respectively. The antidilutive effects of 1,309 shares from stock options and zero shares from warrants, and 6,504 shares from stock options and zero shares from warrants, were excluded from diluted shares for the six months ended June 30, 2024 and 2023, respectively.

Note 12. Subsequent Events***Reverse Merger with Firefly***

On August 12, the Company consummated its previously announced Merger with Firefly 2023, pursuant to which each holder of outstanding shares of Firefly 2023 Common Stock received the number of shares of New Firefly Common Stock equal to the number of shares of Firefly 2023 Common Stock such stockholders held multiplied by the exchange ratio, or an aggregate of 7,870,251 shares of Firefly common stock at Closing using the Exchange Ratio. Additionally, upon at the effective time of the Merger: (i) each outstanding option to purchase Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company subject to certain terms contained in the Merger Agreement and became an option to purchase shares of New Firefly Common Stock, subject to adjustment to give effect to the Exchange Ratio, (ii) each outstanding Firefly 2023 restricted share unit outstanding immediately prior to the Closing was accelerated and vested pursuant to the terms thereof, and (iii) each outstanding warrant to purchase shares of Firefly 2023 Common Stock that was not exercised prior to the Closing was assumed by the Company, subject to certain terms contained in the Merger Agreement.

Immediately prior to the Closing of the Merger, on August 12, 2024, (i) (A) pursuant to the Amended and Restated Certificate of Incorporation of WaveDancer, Inc., WaveDancer changed its name to Firefly Neuroscience, Inc., and (B) pursuant to an amendment to its Certificate of Incorporation, Firefly 2023 changed its name to Firefly Neuroscience 2023, Inc. and (ii) Firefly effected a reverse stock split of all of the then issued and outstanding shares of Firefly Common Stock at a ratio of 1-for-3. As a result of the Merger Reverse Stock Split, every three (3) shares of the then issued and outstanding Firefly Common Stock were automatically combined into one (1) issued and outstanding share of Firefly Common Stock, without any change in the par value per share or the number of authorized shares of common stock.

Private Placement

As previously reported, on July 26, 2024, Firefly 2023 entered into a securities purchase agreement (the "Purchase Agreement") with certain institutional investors, pursuant to which Firefly 2023 agreed to issue and sell (i) shares of Firefly 2023 Common Stock (the "PIPE Shares") or, to the extent that such purchase of PIPE Shares would result in the investors, together with their affiliates and certain related parties, beneficially owning more than 4.99% of the outstanding shares of the Company immediately following the consummation of the Merger, pre-funded warrants (the "Pre-Funded Warrants") to purchase such PIPE Shares in excess of 4.99% of the outstanding shares of the Company's common stock, and (ii) warrants (the "Warrants") to purchase shares of Firefly 2023 Common Stock in a private placement (the "Private Placement") for aggregate gross proceeds of approximately \$3.5 million, before deducting estimated offering expenses payable by Firefly 2023. The purchase price of each PIPE Share and accompanying Warrant was \$1.326 and the purchase price of each Pre-Funded Warrant and accompanying Warrant was \$1.3257. The Private Placement closed on August 12, 2024, substantially contemporaneous with the consummation of the Merger.

None of the issuances of the PIPE Shares, the Pre-Funded Warrants, the Warrants, or the shares of the Company's common stock issuable upon exercise of the Pre-Funded Warrants and the Warrants (collectively, the "Warrant Shares") were registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. The PIPE Shares, the Pre-Funded Warrants, the Warrants and the Warrant Shares have been and will be, as applicable, issued in reliance on the exemptions from registration provided by Section 4(a)(2) under the Securities Act and/or Regulation D promulgated thereunder. The investors that entered into a Purchase Agreement represented that they accredited investors, as defined in Rule 501 of Regulation D promulgated under the Securities Act.

Tellenger Sale

In connection with and prior to the consummation of the Merger, pursuant to the previously announced Stock Purchase Agreement, dated as of November 15, 2023, by and among the Company, Wavetop and Tellenger, Wavetop purchased from the Company all of the issued and outstanding shares of common stock, par value \$1.00 per share, of Tellenger prior to the merger, for an aggregate purchase price of \$1.5 million, plus the assumption of the employment agreements that WaveDancer was obligated under with G. James Benoit, Jr., Gwen Pal and Stan Reese, which included provisions to pay severance under certain circumstances. The purchase price was paid in full in cash less the outstanding balance of \$300,000 under WaveDancer's \$500,000 credit facility with Summit Commercial Bank, N.A.. The balance of the credit facility at SCB was paid in full concurrent with the close of the Merger. Following the sale of Tellenger and the consummation of the Merger, the business of Firefly 2023 became the business of the Company.

Working Capital Letter Agreement

On July 23, 2024, Firefly 2023 advanced \$75,000 cash in working capital to WaveDancer under a letter agreement. The letter agreement established that the advance would be repaid upon the close of the Merger. WaveDancer had sufficient funds after paying all of its other specific liabilities. The advance was not repaid, but was considered in the calculation of the Exchange Ratio.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Cautionary Statement Regarding Forward-Looking Statements**

This Form 10-Q contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Investors should read and understand the risk factors detailed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 ("Annual Report") and in other filings with the Securities and Exchange Commission.

Additional risks and uncertainties, not presently known to us, which we currently deem immaterial, or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "intends," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

Our Business

Founded in 1979 as Information Analysis Incorporated, the Company changed its name to WaveDancer, Inc. and converted from a Virginia corporation to a Delaware corporation in December 2021. We were historically in the business of developing and maintaining information technology (“IT”) systems, modernizing client information systems, and performing other IT-related professional services to government and commercial organizations. On April 12, 2024, pursuant to the previously announced Agreement and Plan of Merger, dated as of November 15, 2023 (as amended by that certain Amendment No. 1, dated as of January 12, 2024, and that certain Amendment No. 2, dated as of June 17, 2024, “Merger Agreement”), by and among the Company, its wholly owned subsidiary, FFN Merger Sub, Inc., a Delaware corporation (“FFN”), and Firefly Neuroscience 2023, Inc., a Delaware corporation (formerly known as Firefly Neuroscience, Inc., “Firefly 2023”), FFN merged with and into Firefly 2023, with Firefly 2023 surviving as a wholly owned subsidiary of Firefly (the “Merger”). Following the consummation of the Merger with Firefly 2023, the business of Firefly 2023 became our business.

Firefly is an Artificial Intelligence (“AI”) technology company developing innovative neuroscientific solutions that improve outcomes for patients with mental illnesses and neurological disorders. Its FDA-510(k) cleared Brain Network Analytics software platform (the “BNA Platform”) and is focused on advancing diagnostic and treatment approaches for people suffering from mental illnesses and cognitive disorders, including depression, dementia, anxiety disorders, concussions, and attention-deficit/hyperactivity disorder. It has taken a period of 15 years and an investment of approximately \$60 million, to develop the software, compile the requisite database of brain wave tests, gain patent protection, and receive Federal Drug Administration (“FDA”) approval to market and sell the BNA Platform so, as of today, Firefly is in a position to undertake a commercial launch of the BNA Platform. Firefly believes there is great potential for such commercialization, both with respect to pharmaceutical companies in their drug research and clinical trial activities, as well as medical practitioners in their clinics.

The BNA Platform is a software as a medical solution that was developed using AI and machine learning on Firefly’s extensive proprietary database of standardized, high-definition longitudinal electroencephalograms (“EEG”) of over 17,000 patients representing twelve disorders, as well as clinically normal patients. The BNA Platform, in conjunction with an FDA-cleared EEG system, can provide clinicians with comprehensive insights into brain function (cognition). These insights can enhance a clinician’s ability to accurately diagnose mental illnesses and cognitive disorders and to evaluate what therapy or drug is best suited to optimize a patient’s outcome.

The clinical utility of EEG technology to support better outcomes for patients with mental illnesses and cognitive disorders has been well documented. Historically, clinical adoption of EEG by medical professionals, including psychiatrists, neurologists, nurse practitioners and general practitioners, has been limited due to the complexity of interpreting EEG recordings and the inability to practically compare a patient’s brain function to that of a clinically normal age-matched patient. Firefly believes that without defining a standard deviation to the norm, it is not possible to objectively assess brain function. By establishing an objective baseline measurement of brain function, the BNA Platform enables clinicians to optimize patient care, leading to improved outcomes for people suffering from mental illnesses and cognitive disorders.

Firefly’s value proposition is supported by real-world use of the BNA Platform. Incorporating the BNA Platform as part of a patient management protocol demonstrated improved response rates, enhanced therapy compliance, reduced non-responder rates and a reduction in need for medication switching among patients¹. Further, Firefly believes that its extensive clinical database, when combined with advanced AI, provides the opportunity to identify clinically relevant biomarkers that will support better patient outcomes through precision medicine and companion diagnostics. We expect to gather additional data through the clinical deployments and clinical studies conducted by drug companies. This additional data should allow us to discover new biomarkers and objectively measure the impact of therapeutic interventions on patients of different types, further enhancing our platform’s effectiveness. Firefly believes that it will be able to enhance accurate diagnosis and predict what therapy or drug, or a combination thereof, is best suited to optimize patient outcomes. This represents a paradigm shift in how clinicians manage patients with mental illnesses and cognitive disorders holding the potential to transform brain health.

Results of Continuing Operations – Three Months Ended June 30, 2024 and 2023
Revenue

Total revenue was \$1,903,602 for the three months ended June 30, 2024, compared with \$2,024,622 in the prior year quarter, a decrease of \$121,020, or 6.0%. The decrease was primarily related to professional services contracts, coupled with a de-emphasis on low margin product sales. Professional services revenue decreased by \$93,860, or 4.8%, to \$1,874,097 in the second quarter of 2024 from \$1,967,957 in the second quarter of 2023. The decline in professional services revenue is driven primarily by one of our historically larger projects where we had fewer resources deployed in the second quarter of 2024 as compared to the comparable prior year quarter based on current project deliverables.

Gross Profit

Gross profit decreased by \$22,318 or 3.2%, to \$682,695 for the three months ended June 30, 2024, as compared to \$705,013 in the prior year quarter. The increase in gross profit includes a decrease from professional services of \$21,616 and a decrease from third-party software sales of \$702. Professional services gross profit as a percent of revenue increased from 35.8% to 36.4% due to a change in the mix of contracts generating revenue, as well as billing rate increases outpacing increases in our costs of labor.

Selling, General and Administrative Expenses

The following table shows the major elements of SG&A expenses for the three months ended June 30, 2024 and 2023, and the changes between periods:

	2024	2023	Increase/ (Decrease)
Stock based compensation	\$ 60,216	\$ 88,159	\$ (27,943)
Insurance	82,265	98,111	(15,846)
Legal and professional fees	151,345	343,042	(191,697)
Acquisition costs	73,947	336,141	(262,194)
Governance and investor relations	96,901	72,365	24,536
Salaries and benefits	440,115	528,573	(88,458)
All other	32,423	48,470	(16,047)
Software, IT and office expenses	85,091	93,802	(8,711)
Marketing and promotions	126	(7,967)	8,093
Depreciation & Amortization	42,336	53,669	(11,333)
Total SG&A	\$ 1,064,765	\$ 1,654,365	\$ (589,600)

The decrease in SG&A for the three months ended June 30, 2024, versus the same period in 2023 was led by decreases in acquisition costs as there were several transactions being explored simultaneously in early 2023, legal and professional fees as there were litigation matters in early 2023, and selling and administrative salaries and benefits.

Operating (Loss) Income from Continuing Operations

Our operating loss from continuing operations was \$382,070 in the second quarter of 2024 as compared to operating income from continuing operations of \$493,116 in the corresponding quarter in 2023, a decrease in operating income of \$875,186. The change in operating loss from continuing operations from operating income is the result of the gain on litigation settlement realized in the second quarter of 2023. Without this gain, there would have been an operating loss from continuing operations in the second quarter of 2023 of \$949,352, which would have represented an improvement of \$567,282 in 2024 over 2023. This improvement is led by decreases in acquisition costs, legal and professional fees, and selling and administrative salaries and benefits.

Results of Discontinued Operations – Three Months Ended June 30, 2024 and 2023

The sale of GMI to GMDC occurred on March 17, 2023, and as a result, there was no activity for GMI in the second quarter of 2024. Following is the detail of discontinued operations for the second quarter of 2023:

Results of Continuing Operations – Six Months Ended June 30, 2024 and 2023*Revenue*

Total revenue was \$3,818,975 for the six months ended June 30, 2024, compared with \$4,184,745 in the prior year, a decrease of \$365,770, or 8.7%. The decrease was primarily related to professional services contracts, coupled with a de-emphasis on low margin product sales. Professional services revenue decreased by \$311,449, or 7.6%, to \$3,759,966 in the six months ended June 30, 2024, from \$4,071,415 in the six months ended June 30, 2023. The decline in professional services revenue is driven primarily by a few of our historically larger projects where we had fewer resources deployed in the first six months of 2024 as compared to the comparable prior year period based on current project deliverables, as well as the discontinuation of a software training service under which our resources were continuously underutilized.

Gross Profit

Gross profit increased by \$20,142 or 1.5%, to \$1,381,953 for the six months ended June 30, 2024, as compared to \$1,361,811 in the prior year period. The increase in gross profit includes an increase from professional services of \$20,427 and a decrease from third-party software sales of \$285. Professional services gross profit as a percentage of revenue increased from 33.4% due to a change in the mix of contracts generating revenue, as well as billing rate increases outpacing increases in our costs of labor.

Selling, General and Administrative Expenses

The following table shows the major elements of SG&A expenses for the six months ended June 30, 2024 and 2023 and the changes between periods:

	2024	2023	Increase/ (Decrease)
Salaries and benefits	\$ 972,635	\$ 1,094,916	\$ (122,281)
Stock based compensation	173,996	376,330	(202,334)
Legal and professional fees	328,338	587,911	(259,573)
Depreciation & Amortization	94,768	107,827	(13,059)
Acquisition costs	232,318	444,518	(212,200)
Software, IT and office expenses	160,045	179,344	(19,299)
Governance and investor relations	194,717	207,538	(12,821)
Insurance	218,951	164,046	54,905
Marketing and promotions	246	868	(622)
All other	61,980	102,595	(40,615)
Total SG&A	\$ 2,437,994	\$ 3,265,893	\$ (827,899)

The decrease in SG&A for the six months ended June 30, 2024, versus the same period in 2023 was led by decreases in legal and professional fees as there were litigation matters in early 2023, acquisition costs as there were several transactions being explored simultaneously in early 2023, Stock based compensation as options vested or were forfeited over time, and selling and administrative salaries and benefits as administrative costs and positions were cut.

Operating Income from Continuing Operations

Our operating loss from continuing operations was \$1,056,041 in the six months ended June 30, 2024 as compared to a loss of \$461,614 in the corresponding prior year period, a additional loss of \$594,427, or 128.8%. The increase in operating loss from continuing operations is the result of the gain on litigation settlement realized in the first six months of 2023. Without this gain, there would have been an operating loss from continuing operations in the second quarter of 2023 of \$1,904,082, which would have represented an improvement of \$848,041 in 2024 over 2023. This improvement is led by decreases in legal and professional fees, acquisition costs, stock based compensation, and selling and administrative salaries and benefits.

Results of Discontinued Operations – Six Months Ended June 30, 2024 and 2023

The sale of GMI to GMDC occurred on March 17, 2023, and as a result, there was no activity for GMI in the six months ended June 30, 2024. Following is the detail of discontinued operations for the six months ended June 30, 2023:

	2023
Revenue	\$ -
Cost of revenue	74,223
Gross profit	(74,223)
Operating expenses -	
Salaries and benefits	484,249
Depreciation and amortization	85,338
Stock based compensation, before forfeitures	65,487
Forfeitures of stock options	(407,322)
Other operating expenses	134,633
Gain on sale of GMI	(100,615)
Loss before income tax benefit	(335,993)
Income tax benefit	-
Net income on discontinued operations	<u>\$ (335,993)</u>

Critical Accounting Estimates

Our accounting policies are described in Note 1 of our consolidated financial statements – *Summary of Significant Accounting Policies*. Our condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP. The preparation of condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

There have been no material changes to our critical accounting estimates as compared to the critical accounting estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2023.

Liquidity and Capital Resources

During the six months ended June 30, 2024, the Company generated a net loss from continuing operations of \$1,056,041. As of June 30, 2024, the Company had a net working capital deficit of \$746,040, including cash and cash equivalents of \$244,137. As of June 30, 2024, the Company had \$300,000 outstanding under its bank line of credit and no borrowing availability. The line of credit expired on July 16, 2024. On August 12, 2024, upon the close of the Merger transaction with Firefly, the lender was repaid in full.

We used cash in continuing operations of \$237,858 during the six months ended June 30, 2024 and anticipate that over the twelve months from the date of these financial statements our operating activities may use as much as \$1.0 million to \$1.5 million.

The Company has no commitments for capital spending nor any plans for material capital expenditures.

For the remainder of fiscal year 2024 and the first half of 2025, we expect to continue to incur negative cash flows from operations as we continue to make targeted investments in sales and marketing and research and development of our next generation BNA Platform.

Beyond the next 12 months, our ability to achieve profitability depends on the commercialization of our flagship product, the BNA Platform. We expect to incur significant costs for at least two to four years to commercialize and distribute our products, and we expect our expenses to increase in connection with our ongoing activities, particularly as we continue our research and development and expand our production capabilities as needed. As a result, we will require significant capital to support our ongoing operations and to drive our business strategy before we can be profitable. These factors raise substantial doubt about our ability to continue as a going concern. Managements plans are disclosed herein.

Until we can generate adequate revenues from the sale of our products to cover our operating expenses and capital expenditure requirements, we expect to finance our operations through the sale of equity, debt financing, or other sources. There can be no guarantee that debt or equity financings will be available to us on commercially reasonable terms, if at all. Additionally, we may be unable to further pursue our business plan and we may be unable to continue operations. The report of our independent registered public accounting firm for the year ended December 31, 2023, states that there is substantial doubt about our ability to continue as a going concern.

The estimates and assumptions underlying our belief in the sufficiency of our capital resources in the short term and our ability to obtain capital resources in the long term may prove to be wrong, and we could exhaust our capital resources sooner than we expect and may not be able to obtain resources on favorable terms, or at all.

Item 4. Controls and Procedures***Disclosure Controls and Procedures***

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2024 (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Merger of August 12, 2024, and the sale of Tellenger has caused the Company to undergo a change in its control environment that will affect its reporting as it relates to its Quarterly Report on Form 10-Q for the three months ended September 30, 2024, and in all of its future filings.

Inherent Limitations on Effectiveness of Controls

Because of the inherent limitations in all control systems, no control system can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of a person, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Notwithstanding these limitations, we believe that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

PART II - OTHER INFORMATION**Item 1. Legal Proceedings**

There are no pending legal proceedings to which we are a party or to which any of our property is subject and, to the best of our knowledge, no such actions against us are contemplated or threatened.

Item 1A. Risk Factors

The following description of risk factors includes any material changes to risk factors associated with our business, financial condition and results of operations previously disclosed in “Item 1A. Risk Factors” of our annual report on Form 10-K for the year ended December 31, 2023, and in the “Risk Factors” section in our registration statement on Form S-4/A filed on February 2, 2024, which includes additional risk factors related to the Merger. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results, and stock price.

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-Q. The following information should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, “Financial Statements” and Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q.

We may not continue to meet the continued listing requirements of the Nasdaq Capital Market, which could result in a delisting of our common stock.

Our common stock is listed on the Nasdaq Capital Market. While we are currently in compliance, we have in the past been, and may in the future be, unable to comply with certain of the listing standards that we are required to meet to maintain the listing of our common stock on Nasdaq. For instance, on August 8, 2024, we received a letter from the Listing Qualifications Department of the Nasdaq Stock Market LLC (the “Staff”) indicating that in the former WaveDancer’s Quarterly Report on Form 10-Q filed with the SEC on May 14, 2024, WaveDancer reported stockholders’ equity of \$1,708,520 for the period ended March 31, 2024, which did not comply with Listing Rule 5550(b)(1) (the “Minimum Stockholders’ Equity Requirement”). Additionally, as previously reported, in a decision dated November 14, 2023, a Nasdaq Hearings Panel (the “Panel”) confirmed that we had regained compliance with the Minimum Stockholders’ Equity Requirement for a prior outstanding deficiency under the Minimum Stockholders’ Equity Requirement as related to the former WaveDancer’s stockholders’ equity for the period ended March 31, 2023. In the decision, the Panel imposed a Mandatory Panel Monitor for a period of one year or until November 14, 2024, which would require the Staff to issue a Delist Determination Letter in the event that WaveDancer failed to maintain compliance with the Minimum Stockholders’ Equity Rule. On August 13, 2024, we received a notice from the Nasdaq Stock Market LLC indicating that following the Staff’s review of the Merger, the Staff determined that we now comply with the Minimum Stockholders’ Equity Requirement and that the matter is now closed.

While we have regained compliance with the continued listing requirements for Nasdaq, it cannot be assured that we will continue to do so. If Nasdaq delists our common stock from trading on its exchange for failure to meet the listing standards, an investor would likely find it significantly more difficult to dispose of or obtain our shares, and our ability raise future capital through the sale of our shares could be severely limited. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As previously disclosed by us in a Current Report on Form 8-K filed with the SEC on August 12, 2024, in connection with the Merger, our Firefly 2023 consummated a previously reported Private Placement of shares of PIPE Shares, Pre-Funded Warrants and Warrants to purchase shares of Firefly 2023 Common Stock in a private placement (the “Private Placement”) for aggregate gross proceeds of approximately \$3.5 million, before deducting estimated offering expenses payable by Firefly 2023. The PIPE Shares, the Pre-Funded Warrants, the Warrants and the Warrant Shares have been and will be, as applicable, issued in reliance on the exemptions from registration provided by Section 4(a)(2) under the Securities Act and/or Regulation D promulgated thereunder.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1” trading arrangement or a “non-Rule 10b5-1 trading arrangement,” as each term is defined in item 408(a) of Regulation S-K.

Item 6. Exhibits

- 3.1 [Amended and Restated Certificate of Incorporation of Firefly Neuroscience, Inc. \(incorporated by reference to the Company’s Current Report on Form 8-K filed with the SEC on August 12, 2024\)](#)
- 3.2 [Amended and Restated Bylaws of Firefly Neuroscience, Inc. \(incorporated by reference to the Company’s Current Report on Form 8-K filed with the SEC on August 12, 2024\)](#)
- 31.1 [Certification of Chief Executive Officer Pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Exchange Act of 1934](#) †
- 31.2 [Certification of Principal Financial Officer Pursuant to Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Exchange Act of 1934](#) †
- 32.1 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#) ††
- 32.2 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#) ††
- 101.INS Inline XBRL Instance Document †
- 101.SCH Inline XBRL Taxonomy Extension Schema †
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase †
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase †
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase †
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase †
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

† Filed herewith

†† Furnished herewith

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Firefly Neuroscience, Inc.
(Registrant)

Date: August 19, 2024

By: /s/ Jon Olsen
Jon Olsen
Chief Executive Officer

**CERTIFICATION of Chief Executive Officer Pursuant to Rules 13a-14(a)
and 15d-14(a) of the Securities Exchange Act of 1934**

I, Jon Olsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Firefly Neuroscience, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2024

By: /s/ Jon Olsen
Jon Olsen
Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to Firefly Neuroscience, Inc. and will be retained by Firefly Neuroscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION of Principal Financial Officer Pursuant to Rules 13a-14(a)
and 15d-14(a) of the Securities Exchange Act of 1934**

I, Paul Krzywicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Firefly Neuroscience, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2024

By: /s/ Paul Krzywicki
Paul Krzywicki
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to Firefly Neuroscience, Inc. and will be retained by Firefly Neuroscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Jon Olsen, Chief Executive Officer of Firefly Neuroscience, Inc., a Delaware corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- 1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: August 19, 2024

By: /s/ Jon Olsen
Jon Olsen
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Firefly Neuroscience, Inc. and will be retained by Firefly Neuroscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Paul Krzywicki, Chief Financial Officer of Firefly Neuroscience, Inc., a Delaware corporation (the "Company"), do hereby certify, to the best of my knowledge, that:

- 1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods presented therein.

Date: August 19, 2024

By: /s/ Paul Krzywicki
Paul Krzywicki
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Firefly Neuroscience, Inc. and will be retained by Firefly Neuroscience, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.